



Financial Statements

December 31, 2010 and June 30, 2009

# Free Arts for Abused Children of Arizona dba Free Arts of Arizona

# Free Arts for Abused Children of Arizona

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December 31, 2010 and June 30, 2009

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## Independent Auditor's Report

Board of Directors  
Free Arts for Abused Children of Arizona  
dba Free Arts of Arizona  
Phoenix, Arizona

We have audited the accompanying statements of financial position for Free Arts for Abused Children of Arizona, dba Free Arts of Arizona (a not-for-profit corporation) as of December 31, 2010 and June 30, 2009, and the related statements of activities, functional expenses and cash flows for the 18 month and 12 month periods then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test-basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Free Arts for Abused Children of Arizona, dba Free Arts of Arizona as of December 31, 2010 and June 30, 2009, and the changes in its net assets and its cash flows for the 18 month and 12 month periods then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Phoenix, Arizona  
June 2, 2011

Free Arts for Abused Children of Arizona dba Free Arts of Arizona  
 Statements of Financial Position  
 December 31, 2010 and June 30, 2009

|                                          | 2010       | 2009       |
|------------------------------------------|------------|------------|
| Assets                                   |            |            |
| Cash and cash equivalents                | \$ 449,339 | \$ 406,573 |
| Contributions and grants receivable, net | 49,550     | 66,504     |
| Prepaid expense                          | 14,527     | 14,068     |
| Pledges receivable, net                  | 139,920    | 218,253    |
| Furniture and equipment, net             | 128,472    | 158,971    |
| Deposit                                  | 6,900      | 6,900      |
|                                          | \$ 788,708 | \$ 871,269 |
| <br>Liabilities and Net Assets           |            |            |
| Liabilities                              |            |            |
| Accounts payable                         | \$ 2,576   | \$ 5,619   |
| Accrued vacation                         | 9,051      | 11,850     |
| Deferred rent                            | 19,916     | 7,968      |
| Total liabilities                        | 31,543     | 25,437     |
| Net Assets                               |            |            |
| Unrestricted                             |            |            |
| Undesignated                             | 554,591    | 412,793    |
| Board designated endowment               | 32,549     | 32,549     |
| Total unrestricted net assets            | 587,140    | 445,342    |
| Temporarily restricted                   | 170,025    | 400,490    |
| Total net assets                         | 757,165    | 845,832    |
|                                          | \$ 788,708 | \$ 871,269 |

|                                           | 2010              |                         |                   |                           |                           |                   |
|-------------------------------------------|-------------------|-------------------------|-------------------|---------------------------|---------------------------|-------------------|
|                                           | Unrestricted      |                         |                   |                           |                           |                   |
|                                           | Board             |                         |                   |                           |                           |                   |
|                                           | Undesignated      | Designated<br>Endowment | Total             | Temporarily<br>Restricted | Permanently<br>Restricted | Total             |
| Public Support and Revenue                |                   |                         |                   |                           |                           |                   |
| Contributions                             |                   |                         |                   |                           |                           |                   |
| Foundation grants                         | \$ 145,067        | \$ -                    | \$ 145,067        | \$ 37,635                 | \$ -                      | \$ 182,702        |
| Corporation grants                        | 251,819           | -                       | 251,819           | 10,000                    | -                         | 261,819           |
| Individuals                               | 141,354           | -                       | 141,354           | 13,200                    | -                         | 154,554           |
| United Way                                | 221,415           | -                       | 221,415           | -                         | -                         | 221,415           |
| Government grants                         | 244,112           | -                       | 244,112           | 2,500                     | -                         | 246,612           |
| Other revenues                            | 8,104             | -                       | 8,104             | -                         | -                         | 8,104             |
|                                           | <u>1,011,871</u>  | <u>-</u>                | <u>1,011,871</u>  | <u>63,335</u>             | <u>-</u>                  | <u>1,075,206</u>  |
| Special events                            |                   |                         |                   |                           |                           |                   |
| Corporate sponsorships                    | 95,170            | -                       | 95,170            | -                         | -                         | 95,170            |
| Ticket sales and auctions                 | 90,069            | -                       | 90,069            | -                         | -                         | 90,069            |
| Cost of direct benefits                   | (11,460)          | -                       | (11,460)          | -                         | -                         | (11,460)          |
|                                           | <u>173,779</u>    | <u>-</u>                | <u>173,779</u>    | <u>-</u>                  | <u>-</u>                  | <u>173,779</u>    |
| Discount on pledges and grants receivable | 12,523            | -                       | 12,523            | -                         | -                         | 12,523            |
| Net assets released from restriction      | 293,800           | -                       | 293,800           | (293,800)                 | -                         | -                 |
| Total Support and Revenue                 | <u>1,491,973</u>  | <u>-</u>                | <u>1,491,973</u>  | <u>(230,465)</u>          | <u>-</u>                  | <u>1,261,508</u>  |
| Expenses                                  |                   |                         |                   |                           |                           |                   |
| Organization expenses                     |                   |                         |                   |                           |                           |                   |
| Program services                          | 1,096,703         | -                       | 1,096,703         | -                         | -                         | 1,096,703         |
| Fundraising                               | 158,102           | -                       | 158,102           | -                         | -                         | 158,102           |
| Allowance for doubtful pledges            | 11,147            | -                       | 11,147            | -                         | -                         | 11,147            |
| General and administrative                | 84,223            | -                       | 84,223            | -                         | -                         | 84,223            |
| Total Expenses                            | <u>1,350,175</u>  | <u>-</u>                | <u>1,350,175</u>  | <u>-</u>                  | <u>-</u>                  | <u>1,350,175</u>  |
| In-Kind                                   |                   |                         |                   |                           |                           |                   |
| In-kind contributions                     | 217,289           | -                       | 217,289           | -                         | -                         | 217,289           |
| In-kind expenses                          |                   |                         |                   |                           |                           |                   |
| Program services                          | 142,147           | -                       | 142,147           | -                         | -                         | 142,147           |
| Fundraising                               | 75,142            | -                       | 75,142            | -                         | -                         | 75,142            |
| General and administrative                | -                 | -                       | -                 | -                         | -                         | -                 |
|                                           | <u>217,289</u>    | <u>-</u>                | <u>217,289</u>    | <u>-</u>                  | <u>-</u>                  | <u>217,289</u>    |
| Change in Net Assets                      | 141,798           | -                       | 141,798           | (230,465)                 | -                         | (88,667)          |
| Net Assets, Beginning of Year             | 412,793           | 32,549                  | 445,342           | 400,490                   | -                         | 845,832           |
| Net Assets, End of Year                   | <u>\$ 554,591</u> | <u>\$ 32,549</u>        | <u>\$ 587,140</u> | <u>\$ 170,025</u>         | <u>\$ -</u>               | <u>\$ 757,165</u> |

See Notes to Financial Statements

Free Arts for Abused Children of Arizona dba Free Arts of Arizona  
 Statements of Activities  
 18 Month Period Ended December 31, 2010 and Year Ended June 30, 2009

| 2009              |                         |                   |                           |                           |                   |
|-------------------|-------------------------|-------------------|---------------------------|---------------------------|-------------------|
| Unrestricted      |                         |                   |                           |                           |                   |
| Board             |                         |                   |                           |                           |                   |
| Undesignated      | Designated<br>Endowment | Total             | Temporarily<br>Restricted | Permanently<br>Restricted | Total             |
| \$ 65,467         | \$ -                    | \$ 65,467         | \$ 17,000                 | \$ -                      | \$ 82,467         |
| 197,154           | -                       | 197,154           | -                         | -                         | 197,154           |
| 232,988           | -                       | 232,988           | 59,325                    | -                         | 292,313           |
| 125,007           | -                       | 125,007           | -                         | -                         | 125,007           |
| 180,257           | -                       | 180,257           | -                         | -                         | 180,257           |
| 4,647             | 342                     | 4,989             | -                         | -                         | 4,989             |
| <u>805,520</u>    | <u>342</u>              | <u>805,862</u>    | <u>76,325</u>             | <u>-</u>                  | <u>882,187</u>    |
| 76,242            | -                       | 76,242            | 5,500                     | -                         | 81,742            |
| 107,502           | -                       | 107,502           | -                         | -                         | 107,502           |
| (11,880)          | -                       | (11,880)          | -                         | -                         | (11,880)          |
| <u>171,864</u>    | <u>-</u>                | <u>171,864</u>    | <u>5,500</u>              | <u>-</u>                  | <u>177,364</u>    |
| 11,566            | -                       | 11,566            | -                         | -                         | 11,566            |
| 334,255           | (2,452)                 | 331,803           | (278,529)                 | (53,274)                  | -                 |
| <u>1,323,205</u>  | <u>(2,110)</u>          | <u>1,321,095</u>  | <u>(196,704)</u>          | <u>(53,274)</u>           | <u>1,071,117</u>  |
| 902,890           | -                       | 902,890           | -                         | -                         | 902,890           |
| 165,517           | -                       | 165,517           | -                         | -                         | 165,517           |
| 11,909            | -                       | 11,909            | -                         | -                         | 11,909            |
| 35,730            | -                       | 35,730            | -                         | -                         | 35,730            |
| <u>1,116,046</u>  | <u>-</u>                | <u>1,116,046</u>  | <u>-</u>                  | <u>-</u>                  | <u>1,116,046</u>  |
| 166,656           | -                       | 166,656           | -                         | -                         | 166,656           |
| 103,275           | -                       | 103,275           | -                         | -                         | 103,275           |
| 63,381            | -                       | 63,381            | -                         | -                         | 63,381            |
| -                 | -                       | -                 | -                         | -                         | -                 |
| <u>166,656</u>    | <u>-</u>                | <u>166,656</u>    | <u>-</u>                  | <u>-</u>                  | <u>166,656</u>    |
| 207,159           | (2,110)                 | 205,049           | (196,704)                 | (53,274)                  | (44,929)          |
| <u>205,634</u>    | <u>34,659</u>           | <u>240,293</u>    | <u>597,194</u>            | <u>53,274</u>             | <u>890,761</u>    |
| <u>\$ 412,793</u> | <u>\$ 32,549</u>        | <u>\$ 445,342</u> | <u>\$ 400,490</u>         | <u>\$ -</u>               | <u>\$ 845,832</u> |

## 2010

|                                              | Program<br>Services | Fundraising       | General and<br>Administrative | Total               |
|----------------------------------------------|---------------------|-------------------|-------------------------------|---------------------|
| Staff salaries                               | \$ 580,552          | \$ 108,122        | \$ 63,399                     | \$ 752,073          |
| Contract employees and interns               | 23,024              | 4,337             | 900                           | 28,261              |
| Payroll taxes and fees                       | 57,358              | 3,186             | 3,186                         | 63,730              |
| Employee benefits                            | 65,177              | 7,555             | 3,673                         | 76,405              |
| Professional artists' fees                   | 54,476              | -                 | -                             | 54,476              |
| Accounting fees                              | 17,727              | 846               | 846                           | 19,419              |
| Art and office supplies                      | 29,693              | 1,170             | 723                           | 31,586              |
| Depreciation                                 | 31,934              | 1,774             | 1,774                         | 35,482              |
| Equipment rental and<br>maintenance          | 7,819               | 3,512             | 190                           | 11,521              |
| Insurance, D&O liability                     | 6,290               | 349               | 349                           | 6,988               |
| Marketing and promotion                      | 9,236               | 3,404             | 232                           | 12,872              |
| Operating costs                              | 76,119              | 15,758            | 1,814                         | 93,691              |
| Postage                                      | 4,443               | 1,046             | 229                           | 5,718               |
| Printing                                     | 14,356              | 11,815            | 519                           | 26,690              |
| Professional development                     | 5,085               | 385               | 89                            | 5,559               |
| Rent                                         | 105,522             | 5,862             | 5,862                         | 117,246             |
| Telephone                                    | 7,892               | 441               | 438                           | 8,771               |
| Special events - cost of direct<br>benefit   | -                   | (11,460)          | -                             | (11,460)            |
|                                              | <u>1,096,703</u>    | <u>158,102</u>    | <u>84,223</u>                 | <u>1,339,028</u>    |
| Allowance for doubtful pledges               | -                   | 11,147            | -                             | 11,147              |
|                                              | <u>1,096,703</u>    | <u>169,249</u>    | <u>84,223</u>                 | <u>1,350,175</u>    |
| In-kind materials and<br>art camp facilities | 131,557             | 69,697            | -                             | 201,254             |
| In-kind services                             | 10,590              | 5,445             | -                             | 16,035              |
|                                              | <u>142,147</u>      | <u>75,142</u>     | <u>-</u>                      | <u>217,289</u>      |
|                                              | <u>\$ 1,238,850</u> | <u>\$ 244,391</u> | <u>\$ 84,223</u>              | <u>\$ 1,567,464</u> |

See Notes to Financial Statements

Free Arts for Abused Children of Arizona dba Free Arts of Arizona  
 Statements of Functional Expenses  
 18 Month Period Ended December 31, 2010 and Year Ended June 30, 2009

| 2009                |             |                               |           |
|---------------------|-------------|-------------------------------|-----------|
| Program<br>Services | Fundraising | General and<br>Administrative | Total     |
| 435,684             | 105,829     | 21,652                        | 563,165   |
| 53,539              | 18,437      | 933                           | 72,909    |
| 41,797              | 2,322       | 2,322                         | 46,441    |
| 41,265              | 6,810       | 1,257                         | 49,332    |
| 60,742              | -           | -                             | 60,742    |
| 32,654              | 1,923       | 1,923                         | 36,500    |
| 17,254              | 1,738       | 524                           | 19,516    |
| 21,437              | 1,191       | 1,191                         | 23,819    |
| 9,826               | 6,287       | 259                           | 16,372    |
| 4,485               | 249         | 249                           | 4,983     |
| 16,394              | 2,881       | 276                           | 19,551    |
| 60,396              | 15,250      | (249)                         | 75,397    |
| 7,731               | 1,060       | 367                           | 9,158     |
| 22,671              | 8,321       | 804                           | 31,796    |
| 1,341               | 68          | 17                            | 1,426     |
| 69,705              | 3,873       | 3,873                         | 77,451    |
| 5,969               | 1,158       | 332                           | 7,459     |
| -                   | (11,880)    | -                             | (11,880)  |
| 902,890             | 165,517     | 35,730                        | 1,104,137 |
| -                   | 11,909      | -                             | 11,909    |
| 902,890             | 177,426     | 35,730                        | 1,116,046 |
| 85,035              | 63,381      | -                             | 148,416   |
| 18,240              | -           | -                             | 18,240    |
| 103,275             | 63,381      | -                             | 166,656   |
| 1,006,165           | 240,807     | 35,730                        | 1,282,702 |

Free Arts for Abused Children of Arizona dba Free Arts of Arizona  
 Statements of Cash Flows  
 18 Month Period Ended December 31, 2010 and Year Ended June 30, 2009

|                                                                                            | 2010        | 2009        |
|--------------------------------------------------------------------------------------------|-------------|-------------|
| Cash Flows from Operating Activities                                                       |             |             |
| Change in net assets                                                                       | \$ (88,667) | \$ (44,929) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |             |             |
| Depreciation                                                                               | 35,482      | 23,819      |
| Change in discount on pledges receivable                                                   | (12,523)    | (11,566)    |
| Allowance for uncollectible pledges                                                        | (58,135)    | 17,000      |
| Loss on disposal of equipment                                                              | 1,132       | -           |
| (Increase) decrease in                                                                     |             |             |
| Contributions and grants receivable                                                        | 16,954      | 67,598      |
| Prepaid expense                                                                            | (459)       | (3,450)     |
| Pledges receivable                                                                         | 148,991     | 13,156      |
| Increase (decrease) in                                                                     |             |             |
| Accounts payable                                                                           | (3,043)     | (8,334)     |
| Accrued vacation                                                                           | (2,799)     | (1,212)     |
| Deferred rent                                                                              | 11,948      | (5,109)     |
| Total adjustments                                                                          | 137,548     | 91,902      |
| Net Cash Provided by Operating Activities                                                  | 48,881      | 46,973      |
| Cash Flows used by Investing Activities                                                    |             |             |
| Payments for the purchase of equipment                                                     | (6,115)     | (1,710)     |
| Net Cash used by Investing Activities                                                      | (6,115)     | (1,710)     |
| Net Increase in Cash                                                                       | 42,766      | 45,263      |
| Cash and Cash Equivalents, Beginning of Year                                               | 406,573     | 361,310     |
| Cash and Cash Equivalents, End of Year                                                     | \$ 449,339  | \$ 406,573  |

## **Note 1 - Summary of Significant Accounting Policies**

### **Organization**

Free Arts for Abused Children of Arizona, dba Free Arts of Arizona (the Organization) was incorporated under the laws of the State of Arizona on October 9, 1993. Free Arts of Arizona is a not-for-profit organization that sparks the creative spirit in abused, homeless and at-risk children and their families to inspire and transform their lives through the power of artistic expression. Through creative volunteers, professional artists, and qualified staff, we plant the seeds of hope and healing to help children build self-esteem, improve social skills, develop trust with caring adults, and learn to express emotions in a positive way. Art heals! In the 18 month period ending December 31, 2010, 8,100 children living in group homes, residential care facilities, and shelters were served through the following programs: 20-Week Mentor Program; Multicultural Arts Camps; Free Arts Days; the Professional Artist Series, and various community activities.

### **Basis of Accounting**

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as described in the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Not-for-Profit Organizations*. Accordingly, the financial statements are prepared on the accrual basis of accounting. Under this method of accounting, revenue and expenses are identified with specific periods of time and are recorded as earned and incurred, respectively, without regard to the date of receipt or payment.

### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains cash balances at financial institutions, which may at times exceed federally insured amounts.

### **Contributions**

Contribution revenue is recognized when the Organization is notified of the existence of a pledge or receives a contribution. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a temporary or permanent restriction expires, temporarily or permanently restricted net assets are reclassified to unrestricted net assets.

### **Pledges and Grants Receivable**

Unconditional promises to give and grants that are expected to be collected within one year are recorded as pledges and grants receivable at fair value. Unconditional promises to give and grants that are expected to be collected in periods greater than one year are recorded at the net present value of expected future cash flows of the pledges and grants at their fair value. The Organization provides an allowance for estimated uncollectible contributions.

Pledges and grants receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on pledges and grants receivable using the allowance method. The allowance is based on experience, third-party contracts, knowledge of the donors and the industry, and other circumstances, which may affect the ability of donors to meet their obligations. It is the Organization's policy to charge off uncollectible pledges and grants receivable when management determines the receivable will not be collected.

### **In-Kind Services and Materials**

In-kind materials are measured at fair value at the date of donation. In-kind services represent services which meet the criteria specified in FASB Accounting Standards Codification Topic ASC 958-605 including, among other things, services requiring specialized skills and services that the Organization would typically purchase. Contributed services are measured at the fair value of the services received.

### **Furniture and Equipment**

All acquisitions of furniture and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

The Organization reviews its furniture and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment loss is recorded at December 31, 2010 or June 30, 2009.

### **Income Taxes**

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes), on July 1, 2009. The implementation of this standard had no impact on the combined financial statements. As of both the date of adoption, and as of December 31, 2010, the unrecognized tax benefit accrual was zero.

The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Organization is no longer subject to Federal examinations by tax authorities for years before 2007 and state examinations for years before 2006.

### **Functional Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the programs and support services benefited based on management's estimate of employee hours devoted to each function.

The Organization has allocated joint costs in the 18 month period ended December 31, 2010 and the 12 month period ended June 30, 2009 for program activities that are conducted with a fundraising appeal. Joint costs of approximately \$39,162 and \$43,050, respectively, have been allocated among program and supporting services as follows: programs - \$15,472 and \$19,026 and fundraising - \$23,690 and \$24,023, respectively.

# Free Arts for Abused Children of Arizona dba Free Arts of Arizona

Notes to Financial Statements  
December 31, 2010 and June 30, 2009

## Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are the allowance for doubtful pledges, depreciation lives and methods, functional expense allocation and valuation of donated materials, long lived assets and services. It is at least reasonably possible that the Organization's estimate will change in the near term.

## Note 2 - Contributions and Grants Receivable

Contributions and grants are recorded as they are receivable and revenue is recognized, in an amount equal to the fair value of the contributions or grant, when the award is made by the donor. Contributions and grants are discounted to the anticipated net present value of the future cash flows.

Net contributions and grants receivable are summarized as follows at December 31, 2010 and June 30, 2009:

|                                                                | 2010      | 2009      |
|----------------------------------------------------------------|-----------|-----------|
| Due within one year                                            | \$ 49,550 | \$ 69,067 |
| Due within two to five years                                   | -         | -         |
|                                                                | 49,550    | 69,067    |
| Adjustment to present value, at discount rate of 0.0% and 3.8% | -         | (2,563)   |
|                                                                | \$ 49,550 | \$ 66,504 |

## Note 3 - Pledges Receivable

Unconditional promises to give are recorded as pledges receivable and revenue is recognized, in an amount equal to the fair value of the pledge, when the promise is made by the donor. Pledges are discounted to the anticipated net present value of the future cash flows.

Net pledges receivable are summarized as follows at December 31, 2010 and June 30, 2009:

|                                                               | 2010       | 2009       |
|---------------------------------------------------------------|------------|------------|
| Due within one year                                           | \$ 145,794 | \$ 196,055 |
| Due within two to five years                                  | 53,630     | 152,200    |
| Due beyond five years                                         | 840        | 1,000      |
|                                                               | 200,264    | 349,255    |
| Allowance for uncollectible pledges                           | (53,800)   | (111,935)  |
| Adjustment to present value, at discount rates of 1.80% to 6% | (6,544)    | (19,067)   |
|                                                               | \$ 139,920 | \$ 218,253 |

Free Arts for Abused Children of Arizona dba Free Arts of Arizona

Notes to Financial Statements

December 31, 2010 and June 30, 2009

**Note 4 - Furniture and Equipment**

Equipment consisted of the following at December 31, 2010 and June 30, 2009:

|                          | 2010              | 2009              |
|--------------------------|-------------------|-------------------|
| Leasehold improvements   | \$ 145,923        | \$ 145,923        |
| Furniture and fixtures   | 85,153            | 85,153            |
| Computer equipment       | 22,109            | 24,353            |
| Art collection           | 7,345             | 7,345             |
|                          | <u>260,530</u>    | <u>262,774</u>    |
| Accumulated depreciation | <u>(132,058)</u>  | <u>(103,803)</u>  |
|                          | <u>\$ 128,472</u> | <u>\$ 158,971</u> |

**Note 5 - In-Kind Services and Materials**

The value of in-kind services contributed by volunteers but not recorded in the financial statements for the 18 month period ended December 31, 2010 and the 12 month period ended June 30, 2009 is as follows:

|                       | 2010                    |                               |                   |
|-----------------------|-------------------------|-------------------------------|-------------------|
|                       | Number of<br>Volunteers | Number of<br>Hours<br>Donated | Value             |
| Program               | 877                     | 14,739                        | \$ 286,078        |
| Administrative/Office | 67                      | 2,479                         | 48,066            |
| Fundraising           | 165                     | 1,029                         | 19,896            |
|                       | <u>1,109</u>            | <u>18,247</u>                 | <u>\$ 354,040</u> |
|                       | 2009                    |                               |                   |
|                       | Number of<br>Volunteers | Number of<br>Hours<br>Donated | Value             |
| Program               | 543                     | 8,542                         | \$ 172,976        |
| Administrative/Office | 25                      | 491                           | 9,943             |
| Fundraising           | 224                     | 1,412                         | 28,593            |
|                       | <u>792</u>              | <u>10,445</u>                 | <u>\$ 211,511</u> |

The monetary value of volunteer hours reflected above is calculated at \$19.48 and \$20.25, respectively, per hour as published in the 2010 and 2009 Economic Report of the President as reported by the Independent Sector.

In addition, in-kind materials and professionals services with an estimated value of \$217,289 and \$166,656 were recognized in the financial statements at December 31, 2010 and June 30, 2009, respectively.

**Note 6 - Restricted and Board Designated Net Assets**

**Board Designated Net Assets**

The Organization's Board of Directors has chosen to designate certain net assets for endowment purposes at December 31, 2010 and June 30, 2009. Accordingly, Board Designated net assets are \$32,549 at both December 31, 2010 and June 30, 2009.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31, 2010 and June 30, 2009:

|                                                                        | 2010       | 2009       |
|------------------------------------------------------------------------|------------|------------|
| Implied time restrictions on pledges receivable not yet due            | \$ 119,890 | \$ 255,880 |
| Implied time and use restrictions on foundation contributions / grants | 50,135     | 144,610    |
|                                                                        | \$ 170,025 | \$ 400,490 |

Temporarily restricted net assets released from restrictions consisted of the following at December 31, 2010 and June 30, 2009:

|                                                                                 | 2010       | 2009       |
|---------------------------------------------------------------------------------|------------|------------|
| Pledges receivable currently due or paid                                        | \$ 149,190 | \$ 132,448 |
| Foundation and other contributions / grants use and time restrictions satisfied | 144,610    | 146,081    |
|                                                                                 | \$ 293,800 | \$ 278,529 |

**Permanently Restricted Net Assets**

During the year ended June 30, 2009, restrictions on Arizona ArtShare endowments received were removed and funds totaling \$53,274 were reclassified to unrestricted net assets. These endowments were from the Arizona Commission on the Arts to increase the working capital reserve of the Organization. The terms of the endowment allowed the use of the funds, if needed, during the fiscal year. Prior to the removal of the restrictions during the year ended June 30, 2009, the agreement required that all funds used be replaced and held at the end of each year.

**Note 7 - Operating Leases**

The Organization leases office space under a noncancelable operating lease with an original term of five years which was extended for an additional period of six years. The lease expires on August 31, 2016. Additionally, the Organization leased certain equipment under a noncancelable operating lease with an original term of four years which expired in the period ending December 31, 2010. Rent expense under these agreements was approximately \$120,000 and \$82,000 for the 18 month period ended December 31, 2010 and the year ended June 30, 2009, respectively.

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Future minimum payments under noncancelable operating leases at December 31, 2010 are as follows:

|            |                   |
|------------|-------------------|
| 2011       | \$ 79,021         |
| 2012       | 76,611            |
| 2013       | 80,948            |
| 2014       | 85,284            |
| 2015       | 89,621            |
| Thereafter | <u>61,675</u>     |
|            | <u>\$ 473,160</u> |

**Note 8 - Revolving Line of Credit**

The Organization has a revolving line of credit agreement with a bank. The available revolving line of credit is \$150,000 with interest due monthly on advances. No amounts are due at December 31, 2010 or June 30, 2009 under this line of credit. The revolving line of credit expires August 8, 2011. The line is secured by certain bank accounts of the Organization as defined in the credit agreement and bears interest at prime rate plus 1.5%, subject to a floor of 5.00% (5.00% at December 31, 2010 and June 30, 2009).

**Note 9 - Subsequent Event**

The Company has evaluated subsequent events through June 2, 2011, the date which the financial statements were issued.